#### COMMONWEALTH OF KENTUCKY

### BEFORE THE PUBLIC SERVICE COMMISSION

### In the Matter of:

THE APPLICATION OF BLUE GRASS ENERGY COOPERATIVE CORPORATION FOR AN ORDER AND CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY (1) TO EXECUTE TWENTY "SUBSTITUTE SECURED PROMISSORY NOTES" AND "CONSOLIDATED LOAN AGREEMENT" AND "RESTATED MORTGAGE AND SECURITY AGREEMENT" WITH NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION PURSUANT TO KRS 278.300 AND (2) TO CASE NO. 98-350 **EXCLUDE FROM PSC JURISDICTION A LOAN** CONTRACT AND MORTGAGE NOTE TO THE UNITED STATES OF AMERICA (RURAL UTILITIES SERVICE) PURSUANT TO KRS 278.300(10) AND (3) TO AUTHORIZE BLUE GRASS ENERGY COOPERATIVE CORPORATION TO ASSUME ALL LIABILITIES OF ITS PREDECESSORS, BLUE GRASS RURAL ELECTRIC COOPERATIVE CORPORATION AND FOX CREEK RURAL **ELECTRIC COOPERATIVE CORPORATION** 

## ORDER

On July 29, 1998, Blue Grass Energy Cooperative Corporation ("Blue Grass Energy") filed an application seeking Commission approval of various documents associated with its application to the Rural Utilities Service ("RUS") for a \$9,802,000 loan. Blue Grass Energy states that in order to receive and secure the new RUS loan, it will be necessary for it to execute the following documents:

- 1) A RUS Loan Contract:
- 2) A Mortgage Note from Blue Grass Energy to the United States of America, through RUS;

- 3) A Restated Mortgage and Security Agreement among Blue Grass Energy, the United States of America (RUS), and the National Rural Utilities Cooperative Finance Corporation ("CFC") ("Restated Mortgage and Security Agreement");
- 4) A CFC Consolidating Loan Agreement; and
- 5) Twenty separate "Substitute Secured Promissory Notes" from Blue Grass Energy to CFC.

In its application, Blue Grass Energy contends that the RUS Loan Contract and the Mortgage Note from Blue Grass Energy to the United States of America through RUS are exempt from the Commission's jurisdiction pursuant to KRS 278.300(10). Blue Grass Energy is seeking the Commission's approval for the three remaining documents. Blue Grass Energy offered explanations as to the purpose of the three remaining documents. The Restated Mortgage and Security Agreement is necessary to secure the 20 Substitute Secured Promissory Notes to CFC and the new loan to RUS. The CFC Consolidating Loan Agreement essentially states the assumption by Blue Grass Energy of the existing debt obligations of Blue Grass Rural Electric Cooperative Corporation ("Blue Grass RECC") and Fox Creek Rural Electric Cooperative Corporation ("Fox Creek RECC"), which were consolidated into Blue Grass Energy. The Substitute Secured Promissory Notes would permit new notes to be issued in substitution for prior notes of Blue Grass RECC and Fox Creek RECC. Blue Grass Energy stated that the Commission had previously approved all of the affected notes and that no new indebtedness would be created with CFC.

On December 12, 1997, in Case No. 97-424,<sup>1</sup> the Commission approved the consolidation of Blue Grass RECC and Fox Creek RECC into Blue Grass Energy. The consolidation became effective on January 1, 1998. The approvals Blue Grass Energy seeks in this proceeding reflect the finalization of that consolidation.

The Commission, after consideration of the evidence of record and being advised, finds that:

- 1. As the issuance of securities or evidences of indebtedness subject to the control of a federal governmental agency does not require Commission approval, KRS 278.300(10), and as the RUS is an agency of the federal government, no action on Blue Grass Energy's proposed loan from the RUS nor the RUS Loan Contract is required.
- 2. The Restated Mortgage and Security Agreement, the CFC Consolidating Loan Agreement, and the 20 Substitute Secured Promissory Notes are for lawful objects within the corporate purposes of Blue Grass Energy, are necessary and appropriate for and consistent with the proper performance by the utility of its service to the public and will not impair its ability to perform that service, and are reasonable, necessary, and appropriate for such purposes.
- 3. Blue Grass Energy is capable of executing its notes as security for the purposes as stated herein.

<sup>&</sup>lt;sup>1</sup> Case No. 97-424, The Application of Blue Grass Rural Electric Cooperative Corporation and Fox Creek Rural Electric Cooperative Corporation for an Order Approving Consolidation of the Two (2) Named Rural Electric Cooperatives.

# IT IS THEREFORE ORDERED that:

- Blue Grass Energy is authorized to execute the Restated Mortgage and Security Agreement, the CFC Consolidating Loan Agreement, and the 20 Substitute Secured Promissory Notes.
- 2. Blue Grass Energy is authorized to execute its notes as security for the purposes authorized herein.

Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

Done at Frankfort, Kentucky, this 7th day of August, 1998.

PUBLIC SERVICE COMMISSION

Chairman/

Vice Chairman

Commissioner

ATTEST:

**Executive Director**